

Message Text

PAGE 01 STATE 205536

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E.O. 11652:GDS
TAGS: PFOR, ECON, CI, US
SUBJECT: DISCUSSION OF ECONOMIC PROBLEMS WITH CHILEAN
FOREIGN MINISTER AND DELEGATION, OCTOBER 11
SUMMARY: FOLLOWING BRIEF REMARKS BY MINISTER HUERTA,
ECONOMIC ADVISOR ORLANDO SAENZ PRESENTED OVERVIEW OF CHILEAN
ECONOMIC SITUATION, PLANS FOR RECOVERY AND EXTERNAL ASSES-
TANCE NEEDS. HE EMPHASIZED GOC'S RESOLVE TO RATIONALIZE
THE CHILEAN ECONOMY AND TAKE STEPS NECESSARY TO RESTORE
CHILE'S CREDIT STANDING IN ORDER TO REMOVE OBSTACLES TO
THE INFLOW OF BADLY NEEDED EXTERNAL ASSISTANCE. 1972 BI-
LATERAL DEBT RESCHEDULING, RESUMPTION OF EXIM LEADING
AND MORE WHEAT CREDITS HEADED HIS LIST OF PRIORITIES FOR
USG COSIDATION. HE RELATED A GOC FINANCIAL SCENARIO
CALLING FOR A CIAP-SPONSORED "INTER-AGENCY GROUP" MEETING
FOLLOWED BY CIAP AND IMF MISSIONS TO CHILE AND THEIR REPORTS,
SECRET

PAGE 02 STATE 205536

CULMINATING IN A PARIS CLUB MEETING ON JANUARY 1974. WITH
OUTSIDE COOPERATION, HE MAINTAINED, CHILEAN TECHNOCRATS
WOULD RAPIDLY REVIVE THE CHILEAN ECONOMY WHICH HE CONSID-
ERED STRUCTURALLY SOUND DESPITE THE CURRENT CRISIS. USG

PARTICIPANTS EXPRESSED A DESIRE TO BE AS ACCOMMODATING AS CONGRESSIONAL AND OTHER LIMITATIONS WOULD PERMIT. SUGGESTION MADE THAT GOC MIGHT WISH MOVE MORE RAPIDLY THAN NOW ENVISAGED ON PROBLEM OF 1972 DEBT RESCHEDULING WITH USG.

1. HUERTA, ACCOMPANIED BY SAENZ, RICARDO CLARO, CHARGE EBERHARD AND ECON COUNSELOR PATRICIO RODRIGUEZ MET

MORNING OCTOBER 11 WITH GROUP OF DEPT OFFICERS HEADED BY ASST. SEC. KUBISCH. TREASURY ASST. SEC. HENNESSY ALSO PARTICIPATED. OCCASION WAS DEVOTED TO DISCUSSION OF CHILEAN ECONOMIC ISSUES AND FOLLOWED SEPARATE MEETINGS BETWEEN HUERTA AND KUBISCH AND BETWEEN SHLAUDEMANN AND OTHER MEMBERS OF CHILEAN DELEGATION. LATTER MEETING LARGELY COVERED SAME ECONOMIC GROUND.

2. AFTER WELCOMING THE PARTICIPANTS, KUBISCH STATED THAT HE AND THE FOREIGN MINISTER HAD AGREED UPON A GENERAL RESPONSE TO THE PRESS IN THE EVENT OF INQUIRIES ABOUT HUERTA'S VISIT. WE WOULD SAY THAT THE FOREIGN MINISTER AND HIS ASSOCIATES HAD ARRIVED IN WASHINGTON AND WE UNDERSTAND THEY WILL BE HAVING MEETINGS WITH INTERNATIONAL AGENCIES, AS WELL AS WITH US GOVERNMENT OFFICIALS INCLUDING THE SECRETARY OF STATE AND THE ASST. SEC. FOR INTER-AMERICAN AFFAIRS.

3. KUBISCH NOTED THAT THE USG OFFICIALS PRESENT HAD NO INTENTION OF MAKING ANY JUDGMENT ABOUT INTERNAL CHILEAN EVENTS -- THAT SUBJECT WAS A CHILEAN MATTER. WE RECOGNIZED, HE SAID, THAT THE GOC FACED SERIOUS PROBLEMS INCLUDING THOSE OF A SECURITY NATURE. HE SUGGESTED, HOWEVER, THAT THE CHILEANS BE MINDFUL OF CONGRESSIONAL AND PUBLIC OPINION IN THE U.S., AND OF OUR OTHER COMMITMENTS AND THE LIMITATIONS UPON U.S. RESOURCES. (DURING PREVIOUS MEETING SAENZ HAD EXPRESSED TO SHLAUDEMANN GRAVE GOC CONCERN OVER RECENT U.S. CONGRESSIONAL ACTIONS WITH RESPECT TO CHILE AND OVER "TENDENTIOUS" ATTITUDE OF U.S. PRESS. SHLAUDEMANN NOTED SECRET

PAGE 03 STATE 205536

THAT THESE UNFAVORABLE REACTIONS WERE A REALITY AND COULD MAKE OUR COOPERATION WITH GOC MORE DIFFICULT THAN IT MIGHT OTHERWISE BE. HE OBSERVED THAT HUERTA'S UNGA SPEECH AND PRESS CONFERENCE HAD BEEN USEFUL IN THIS CONTEXT, AS HAD BEEN HIS INVITATIONS TO CONGRESSMEN AND OTHERS TO COME TO CHILE AND SEE FOR THEMSELVES.(FYI: WE UNDERSTAND HUERTA MET PRIVATELY WITH SENATOR KENNEDY AFTERNOON OF OCTOBER 12 END FYI.)

4. HUERTA RESPONDED BRIEFLY AND POSITIVELY, THEN RETURNED THE CHILEAN PRESENTATION OVER TO SAENZ. AFTER ALLUDING TO THE PERILOUS STATE OF CHILEAN ECONOMY, SAENZ NOTED THAT CHILE, FOR ALL ITS CURRENT PROBLEMS, WAS STRUCTURALLY

SOUND, ITS HUMAN RESOURCES REMAIN EXCELLENT, AND IT WOULD NOW HAVE THE BENEFIT OF POLITICAL STABILITY, THE LATTER A BY-PRODUCT OF THE CHILEAN PUBLIC'S DISILLUSIONMENT WITH ITS EXPERIENCE OVER THE PRECEDING THREE YEARS. HE MAINTAINED THAT THE JUNTA ENJOYS THE BROAD SUPPORT OF ORGANIZED CHILEAN SOCIETY AND WILL KEEP THAT SUPPORT TO THE EXTENT IT IS ABLE TO PERFORM. THE NEW AUTHORITIES HAVE AS THEIR ONLY GOAL NATIONAL DEVELOPMENT. THE APPROACH AND STAFFING WOULD BE "TECHNOCRATIC". THE DESIGNATION OF LENIZ AS MIN ECON WAS ILLUSTRATIVE. SAENZ SAID THERE IS A TACIT CONSENSUS AMONG CHILEAN TECHNICIANS WHICH IS FACILITATING THE RAPID ELABORATION OF A COHERENT ECONOMIC PROGRAM TO BE PRESENTED TO THE JUNTA FOR ITS IMPRIMATUR. THE PROGRAM, HE SAID, WOULD ALSO BE DISCUSSED WITH CHILEAN "INSTITUTIONS".

5. SAENZ DESCRIBED THE NEW GOVERNMENT'S OBJECTIVE AS THE IMPLEMENTATION OF A "SOCIAL MARKET ECONOMY" EMPHASIZING DECENTRALIZED DECISION-MAKING AND FREE COMPETITION WITHIN THE STATE AND PRIVATE SECTORS, BUT WITHOUT ELIMINATING THE GOVERNMENT'S PLANNING ROLE.

6. SAENZ PORTRAYED THE GOC'S MAJOR ECONOMIC GOALS AS (1) EXPANSION OF COPPER PRODUCTION, (2) REDUCTION OF CHILE'S FOOD DEFICIT, AND (3) FURTHER INDUSTRIAL DEVELOPMENT. THE GOVERNMENT HOPES THAT THE REDISTRIBUTION OF LAND TO PRIVATE OWNERS, IMPROVEMENT OF INFRASTRUCTURE AND CORRECTIONS OF HISTORIC DISTORTIONS IN AGRICULTURAL PRICE STRUCTURE WILL IN TIME REDUCE FOOD IMPORT NEEDS TO SECRET

PAGE 04 STATE 205536

NOT MORE THAN \$250 MILLION ANNUALLY. AN INDUSTRIAL DEVELOPMENT STATUTE WOULD STIMULATE BOTH DOMESTIC AND FOREIGN INVESTMENT.

7. THE GOC'S MOST PRESSING SHORT-TERM PROBLEM WAS THE BALANCE OF PAYMENTS. THE GOC REQUIRED, SAENZ SAID, \$500 MILLION MORE IN CREDIT OVER THE NEXT YEAR. IN THIS CONTEXT, HE WAS HOPEFUL THAT U.S. PRIVATE BANKS WOULD AUGMENT THEIR \$36 MILLION IN CURRENT LINES OF CREDIT TO SOMETHING APPROACHING THE \$297 MILLION AVAILABLE FROM THE SAME SOURCES IN 1970. HE DESCRIBED HIS MEETINGS WITH THE U.S. COMPANIES AND BANKS IN NEW YORK AS "POSITIVE".

8. SAENZ WENT ON TO DISCUSS SPECIFIC AREAS OF BILATERAL CONCERN.

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